

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

Competitive Product Prices
Priority Mail
Forever Postage

Docket No. CP2011-63

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO
UNITED STATES POSTAL SERVICE NOTICE CONCERNING USE
OF FOREVER POSTAGE ON PRIORITY FLAT RATE PACKAGING

(MARCH 23, 2011)

1. INTRODUCTION

On March 15, 2011, the Postal Service filed a notice with the Postal Regulatory Commission to reclassify and change rates of general applicability for a competitive product, in accordance with 39 CFR 3015.2, effective April 17, 2011.¹ In that notice, the Postal Service informs the Commission that it seeks to establish “Forever” postage for certain Priority Mail flat rate packages. Through this offering, the Postal Service proposes to charge a per piece fee equal to the ordinary rate effective at the time the order is placed for the equivalent product type. By prepaying at a forever rate, mailers can then ship packages at any time of their choosing. The Postal Service claims that the new offering will comply with Section 3633(a). It states that introduction of the new service will not affect “the ability of the Priority Mail product as a whole to cover its costs and make an appropriate contribution to institutional costs”. Notice at 1-2.

¹ Notice of the United States Postal Service of Changes in Rates of General Applicability for a Competitive Product Established in Governors’ Decision No.11-4, March 15, 2011 (Notice).

As requested by Order No. 697 filed on March 17, 2011 by the Postal Regulatory Commission addressing the Notice, the Public Representative submits the following comments for consideration.²

BACKGROUND

The Postal Service proposes to offer its Priority Mail customers the ability to order flat packages at a forever rate that avoids the risk of future payments at higher ordinary rates when packages are shipped. The forever postage will be offered for two product types: a) Priority Mail flat rate regular, legal and padded envelopes, and b) Priority Mail flat rate small, medium and large boxes. Packages will be available for purchase in 3, 5, 10 and 25 count packs with prepaid mailing labels attached.

Customers will be able to purchase packages from a website and from retailers who are stocked with sizes and quantities suitable for their customers' needs. The Postal Service will implement the website model first, followed by the retail alternative. The Postal Service claims that mailers will greatly benefit from the new offering, both through saved time and costs. Mailers will now not have to purchase and use meter machines or have to wait in line at a post office to mail pieces. Upon receipt, Priority Mail packs can be stored, packaged for mailing, and handed to a carrier or dropped off at an automated postal facility (APC) or retail counter.

The Postal Service claims that that it will also benefit by the new initiative. It expects to increase Priority Mail volume and revenue. The Postal Service also states that it will avoid costs associated with the printing and destroying of Priority Mail pieces deployed with regular postage stamps when rates change. However, the Postal Service also admits that it will incur expenses for the new packaging. Stamps.com will create the postage; and the Express Priority Mail Supply Center (EPMSC) will print, affix mailing labels, and ship packages to mailers or retail customers.

² Notice and Order Concerning Use of Forever Postage on Priority Mail Flat Rate Packaging, March 17, 2011.

DISCUSSION

The Postal Service should be commended for proposing expansion of the Priority Mail product line through this initiative. As the Postal Service recognizes, the Priority Mail “Forever” stamp will enhance Priority Mail service. Commercial and non-commercial mailers will clearly benefit through reduced time and out of pocket expenses by using either of the two marketing channels to purchase the new flat packs. However, benefits can be expected to vary across mailers, depending on how such mailings are now conducted. For example, single piece mailers who now wait in line to pay postage would now be able to purchase multiple packs at local retailers, and then enter each into the mail stream much more quickly than at present. There is a clear incentive for these mailers to switch to the new packs and expand volume because of per piece time saved. In other cases, as the Postal Service notes, benefits might consist largely of avoided fixed costs for businesses requiring meter machines to pay postage.

Unquestionably, as the Postal Service asserts, there should be some increase in Priority Mail volume and related revenues. These increases should come predominantly from cases where there are marginal (per piece) benefits, such as with single piece mailers who perhaps spend now an inordinate amount of time waiting in line at post offices. These mailers would have an incentive to switch from current mailings at ordinary rates to one of the proposed alternatives, and expand total volume at the same time. There is an incentive for volume expansion because at the margin (last piece mailed) there is now a positive contribution for these mailers. Mailers can increase their total benefits by expanding volume until the marginal equilibrium is re-established once again (marginal contribution is zero).

On the other hand, if benefits are largely lump sum in nature, and not traceable to each piece, then perhaps little or no volume expansion will result. For example small businesses, who can either purchase a meter machine or choose the new program, could opt for the latter and saved the fixed purchasing cost, as the Postal Service suggests. Notice at 4. However if there are no per piece benefits, such mailers would have little incentive to expand their total mailings. They would simply internalize the fixed cost savings by switching to the new program without increasing total volume.

Also, the effect to the Postal Service on the cost side from the initiative is unclear. The Postal Service states that it will avoid costs associated with printing and destroying Priority Mail pieces with outdated stamps. The Public Representative also notes that the Postal Service can expect some level of retail clerk savings from use of alternative entry channels (APCs and delivery carriers) by forever stamp users. Additionally, the Postal Service describes the added production and distribution costs for the new Priority Mail packages (stamp creation, label printing, and transportation of packs to various destinations). *Id.* However it is unclear whether the net per piece effect from the new production and distribution configuration would be positive or negative, after subtraction of existing per piece costs for the same set of activities. Therefore from the information provided with the filing, the effect on total Priority Mail incremental costs appears ambiguous.

On balance, the Public Representative concludes that the Postal Service can expect some increase in volume and revenue from the initiative. The extent of this increase will depend on how individual mailers now configure their mailings and, consequently, to what extent marginal savings are realized. Where per piece savings to the mailer are realized, then volume and revenue expansion can be expected. On the cost side, it is unknown whether incremental costs would increase or decrease. In the latter case, the Public Representative acknowledges that the initiative would increase the present contribution from the Priority Mail product. However in the former instance, a positive effect on contribution requires that Priority Mail revenue increase more than incremental costs. Therefore from the information given, the Public Representative cannot conclude that the contribution from Priority Mail services would not be lower than the present level.

The Public Representative recommends that the Commission request the Postal Service to file a financial analysis providing an estimate of the total volume, revenue and cost impact associated with its initiative, the supporting data, and any underlying assumptions forming part of the analysis. This would allow the Commission to address the Section 3633(a) compliance requirement, for the Priority Mail product as a whole, with respect to the Postal Service's initiative.

The Public Representative respectfully submits the preceding comments for the Commission's consideration.

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